



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 19, 1998

H.R. 3849 **Internet Tax Freedom Act**

As reported by the House Committee on the Judiciary on June 19, 1998

SUMMARY

H.R. 3849 would prohibit the Federal Communications Commission (FCC) and states from regulating the prices paid by subscribers for Internet access. It would also amend the Communications Act of 1934 to prohibit the FCC from collecting fees from providers of Internet access or online services to offset the cost of the FCC's regulatory program. In addition, the bill would require the Department of Commerce to prepare a report regarding barriers to electronic commerce in foreign markets. CBO estimates that enacting H.R. 3849 would result in new discretionary spending of less than \$500,000 over the 1999-2003 period, assuming appropriation of the necessary amounts. H.R. 3849 would not affect direct spending or receipts, so pay-as-you-go procedures would not apply.

The bill contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the mandate would impose no costs on state, local, or tribal governments. This bill would impose no new private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

Thus far, the FCC has not imposed regulatory fees on Internet service providers; therefore, the provision barring such fees would have no budgetary impact.

Section 4 would require the Department of Commerce to prepare a report, within 18 months following enactment of the bill, examining barriers to electronic commerce in foreign markets. Based on information from the department, CBO estimates this work would cost less than \$500,000, assuming appropriation of the necessary funds. The costs of this legislation fall within budget function 370 (commerce and housing credit).

PAY-AS-YOU-GO CONSIDERATIONS: None.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3849 contains an intergovernmental mandate as defined in UMRA, but CBO estimates that the mandate would impose no costs on state, local, or tribal governments. The bill would prohibit state public utility commissions from regulating the prices of Internet access or online services. Although some states have classified Internet access and online services as telecommunications services, no state public utility commission has tried to regulate the prices of these services. In any case, prohibiting the commissions from doing so would not impose any costs on states.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

This bill would impose no new private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATES

CBO has completed cost estimates for two other versions of the Internet Tax Freedom Act. On January 21, 1998, CBO transmitted an estimate of the federal costs of S. 442, as ordered reported by the Senate Committee on Commerce, Science, and Transportation on November 4, 1997. On May 22, 1998, CBO transmitted an estimate of the federal costs of H.R. 3849, as ordered reported by the House Committee on Commerce on May 14, 1998. Differences between those estimates and the estimate of the Judiciary version of H.R. 3849 reflect differences in the bills. In particular, the Commerce Committee's version of H.R. 3849 would establish an Advisory Commission on Electronic Commerce, which would cost \$1 million to \$2 million over the 1999-2003 period.

CBO also has completed intergovernmental mandates statements for four other versions of the Internet Tax Freedom Act. Each version would impose a moratorium on some categories of state and local taxes. In each case, we determined that the moratorium would constitute an intergovernmental mandate as defined in UMRA. The direct costs that we estimated for the mandate in each bill differed depending on the scope and duration of the moratorium. For two bills, we determined that the costs of complying with the mandate would exceed the threshold established in UMRA. For the remaining two bills, we could not determine whether the threshold was exceeded.

<u>Date</u>	<u>Bill Number</u>	<u>Version</u>	<u>Threshold Determination</u>
June 18, 1997	S. 442	As introduced	Threshold exceeded
January 21, 1998	S. 442	As ordered reported by full committee	Cannot determine
March 25, 1998	H.R. 1054	As approved by subcommittee	Threshold exceeded
May 22, 1998	H.R. 3849	As ordered reported by House Commerce Committee	Cannot determine

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